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Federal Circuit Friday

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In *Trimble v. PerDiemCo* (May 12), the Federal Circuit clarified the law of specific personal jurisdiction in patent non-infringement declaratory judgment cases and provided an example of circumstances that give rise to specific personal jurisdiction.

Background: Facts & The Issue

PerDiemCo is headquartered in the Eastern District of Texas ("ED-Tx") and owns patents relating to electronic logging (monitoring truckers' hours and activities) and geofencing (monitoring vehicle locations vis-à-vis preset areas). Trimble is headquartered in the Northern District of California ("ND-Cal") and manufactures and sells positioning and navigation products and services for electronic logging and geofencing.

PerDiemCo initially sent patent infringement notice letters to a Trimble subsidiary in Iowa, and then engaged in communications with Trimble's Chief IP Counsel in Colorado. As part of these discussions, PerDiemCo offered a non-exclusive license, identified "ten companies that had entered into nonexclusive licenses after the companies had 'collectively spent tens of millions of dollars in litigation expenses,'" provided Trimble's Iowa subsidiary an unfiled complaint (styled for the Northern District of Iowa) alleging infringement of nine patents, asserted infringement by Trimble of six of the patents, and "threatened to sue Trimble for patent infringement in the Eastern District of Texas and identified counsel that it had retained for this purpose."

Trimble filed a non-infringement declaratory judgment action against PerDiemCo in the ND-Cal. The district court dismissed the case for lack of personal jurisdiction over PerDiemCo, finding the exercise of specific personal jurisdiction over PerDiemCo would be "constitutionally unreasonable" based on the district court's reading of *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.,* 148 F.3d 1355 (Fed. Cir. 1998). Trimble appealed.

Background: Relevant Black Letter Law

1. Personal Jurisdiction - Federal
    a. Two step inquiry – "whether a forum state's long-arm statute permits service of process and whether the assertion of personal jurisdiction would violate due process."[1]
    b. *Step One – Long-Arm Statute:* California's long-arm statute extends to the limits of the federal Constitution (so, no relevant limiting effect in patent cases in California federal district courts).[2]
    c. *Step Two – Federal Constitutional Limits:* Need minimum contacts with the forum state such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice.[3]
        i. Minimum contacts: "it is essential in each case that there be some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum State, thus invoking the benefits and protections of its laws."[4]
            1) General jurisdiction (*i.e.,* general, all-purpose): Due Process requires "continuous and systematic general business contacts" with the forum state.[5]

[1] *Avocent Huntsville Corp. v. Aten Int'l Co.,* 552 F.3d 1324, 1329 (Fed. Cir. 2008) (quoting *Inamed Corp. v. Kuzmak,* 249 F.3d 1356, 1359 (Fed. Cir. 2001)).

[2] Cal. Code of Civil Procedure §410.10 ("A court of this state may exercise jurisdiction on any basis not inconsistent with the Constitution of this state or of the United States."); *Xilinx, Inc. v. Papst Licensing GmbH & Co. KG,* 848 F.3d 1346, 1353 (Fed. Cir. 2017) ("California's longarm statute permits service of process to the full extent allowed by the due process clauses of the United States Constitution").

[3] *Avocent Huntsville,* 552 F.3d at 1329 (quoting *Int'l Shoe Co. v. Washington,* 326 U.S. 310, 316 (1945)).

[4] *Id.* (quoting *Hanson v. Denckla*, 357 U.S. 235, 253 (1958)).

[5] *Helicopteros Nacionales de Colombia, S.A. v. Hall,* 466 U.S. 408, 416 (1984).

2) Specific jurisdiction (*i.e.*, case-specific): Due Process requires that the defendant "'purposefully directed' his activities at residents of the forum" and that "the litigation results from alleged injuries that 'arise out of or relate to' those activities."[6]

ii. Factors for evaluating "fair play and substantial justice":[7]

1) "the burden on the defendant";

2) "the forum State's interest in adjudicating the dispute";

3) "the plaintiff's interest in obtaining convenient and effective relief";

4) "the interstate judicial system's interest in obtaining the most efficient resolution of controversies"; and

5) the "shared interest of the several States in furthering fundamental substantive social policies."

2. Personal Jurisdiction – Patent Infringement-Related Declaratory Judgment Actions:

a. Federal Circuit law.

i. Three-pronged test:[8] Determine whether . . .

1) the defendant purposefully directed its activities at residents of the forum (minimum contacts);

2) the claim arises out of or relates to those activities (minimum contacts); and

3) the assertion of personal jurisdiction is reasonable and fair (fair play and substantial justice).

ii. Basis for specific personal jurisdiction "arises out of or relates to the activities of the defendant patentee in enforcing the patent or patents in suit."[9]

1) "The relevant inquiry for specific personal jurisdiction purposes then becomes to what extent has the defendant patentee 'purposefully directed [such enforcement activities] at residents of the forum,' and the extent to which the declaratory judgment claim 'arises out of or relates to those activities.'"[10]

2) Requisite activities need not be enforcement actions directed at the DJ Plaintiff – can be enforcement-related activities directed at others in the forum state (*e.g.,* licensees of the DJ Defendant).[11]

3) Also, activities directed to employees of company in one state can be deemed to have occurred in the company's home state.[12]

b. Sending "notice" letters and attempting to license a patent to Forum State residents:

i. Fact-dependent, especially regarding the "reasonable and fair" prong of the analysis (*i.e.,* minimum contacts usually satisfied by sending notice letters).

1) Patentees are entitled to some "latitude" to inform third parties in another state of potential infringement without subjecting them to personal jurisdiction in that State,[13] but fairness considerations can tip the balance.

ii. Examples of situations where notice letters and related activities ***were*** sufficient:

1) Personal jurisdiction established by DJ Defendant sending patent-infringement notice letter to DJ Plaintiff and exclusively licensing the patent (with enforcement rights) to another forum-State resident (creating "continuing obligations" in the forum state), where DJ Defendant made no showing of burden – much less a showing that would outweigh the forum State's interest in adjudicating the dispute or the DJ Plaintiff's interest in adjudicating the dispute locally.[14]

2) Personal jurisdiction established by DJ Defendant embarking on a licensing program that included notice letters and threats of litigation directed to 11 forum residents, where (i) DJ Defendant's sole business was

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[6] *Avocent Huntsville,* 552 F.3d at 1330 (citing *Keeton v. Hustler Magazine, Inc.,* 465 U.S. 770 (1984), *Helicopteros Nacionales de Colombia, S.A. v. Hall,* 466 U.S. 408, 416 (1984), and *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985)).

[7] *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 477 (1985).

[8] *Avocent Huntsville,* 552 F.3d at 1332 (citing *Breckenridge Pharm., Inc. v. Metabolite Labs., Inc.,* 444 F.3d 1356, 1363 (Fed.Cir.2006)).

[9] *Id.*

[10] *Id.*

[11] *E.g., Akro Corp. v. Luker,* 45 F.3d 1541, 1547 (Fed. Cir. 1995) ("the plaintiff need not be the forum resident toward whom any, much less all, of the defendant's relevant activities were purposefully directed"); *Breckenridge Pharmaceutical v. Metabolite*, 444 F.3d 1356, 1366-67 (Fed. Cir. 2006) (activities directed at third party exclusive licensee within the forum are relevant).

[12] *E.g., Maxchief Investments Ltd. v. Wok & Pan, Ind., Inc.,* 909 F.3d 1134, 1139 (Fed. Cir. 2018) (for purposes of personal jurisdiction, communication sent to a company's counsel is directed to the company at its headquarters, not the physical location of counsel).

[13] *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.,* 148 F.3d 1355, 1360-61 (Fed. Cir. 1998) ("[p]rinciples of fair play and substantial justice afford a patentee sufficient latitude to inform others of its patent rights without subjecting itself to jurisdiction in a foreign forum.").

[14] *Akro Corp. v. Luker,* 45 F.3d 1541 (Fed. Cir. 1995).

"licensing and litigating its patents," (ii) all of its contacts with the forum residents related to that business, and (iii) DJ Defendant made no showing of unfair burden.[15]

iii. Examples of situations where notice letters and related activities were ***not*** sufficient:

1) Personal jurisdiction not established by DJ Defendant sending three notice letters, offering non-exclusive license, and having 34 non-exclusive licensees operating in the forum State, where (i) the activities of the licensees were not controlled by DJ Defendant and could not be attributed to the DJ Defendant, and (ii) exercising personal jurisdiction would be contrary to policies in favor of settlement of disputes and efficient resolution of controversies.[16]

2) Personal jurisdiction not established by DJ Defendant sending notice letters to DJ Plaintiff regarding a patent and an injunction obtained in trade secret case and sending a prospective customer in the forum information regarding the trade secret injunction, where (i) patent-infringement threats were vague or ambiguous, and (ii) trade secret injunction was unrelated to the patent.[17]

c. Notice letters are not the only in-forum activities relevant to specific personal jurisdiction. For example, the following activities have been held relevant to the minimum contacts and fairness analyses:

1) "hiring an attorney or patent agent in the forum state to prosecute a patent application that leads to the asserted patent";[18]

2) "physically entering the forum to demonstrate the technology underlying the patent to the eventual plaintiff[19] ... or to discuss infringement contentions with the eventual plaintiff";[20]

3) "the presence of 'an exclusive licensee . . . doing business in the forum state'";[21] and

4) "'extra-judicial patent enforcement' targeting business activities in the forum state"[22] such as "attempting to have ... allegedly infringing products removed from [a] convention and [telling the alleged infringer's] customers that [their] products were infringing."

What *Trimble* Adds or Changes:

The Federal Circuit reversed the district court, finding that specific personal jurisdiction did exist over PerDiemCo in ND-California, and remanded for further proceedings. *Trimble* clarifies that a common reading of the rule of the *Red Wing* case is incorrect, [23] and provides an example of circumstances in which personal jurisdiction may properly be exercised in support of a declaratory judgment non-infringement action.

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[15] *Jack Henry & Associates, Inc. v. Plano Encryption Technologies LLC*, 910 F.3d 1199 (Fed. Cir. 2018).

[16] *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.,* 148 F.3d 1355 (Fed. Cir. 1998). *See* n.23, below, regarding how this case has been "mis-interpreted."

[17] *Silent Drive, Inc. v. Strong Indus., Inc.,* 326 F.3d 1194 (Fed. Cir. 2003).

[18] *Electronics for Imaging, Inc. v. Coyle,* 340 F.3d 1344, 1351 (Fed. Cir. 2003).

[19] *Id.*

[20] *Xilinx,* 848 F.3d at 1353.

[21] *Breckenridge Pharmaceutical*, 444 F.3d at 1366-67.

[22] *Campbell Pet Co. v. Miale*, 542 F.3d 879, 886 (Fed. Cir. 2008).

[23] Even Federal Circuit cases have "misread" *Red Wing* as stating a rule that notice letters alone cannot justify exercise of specific personal jurisdiction. As examples:

- *Breckenridge Pharmaceutical*, 444 F.3d at 1363: "The district court correctly stated this court's law that personal jurisdiction may not be exercised constitutionally when the defendant's contact with the forum state is limited to cease and desist letters, 'without more.' *Red Wing Shoe,* 148 F.3d at 1360."
- *Silent Drive v. Strong Indus.,* 326 F.3d 1194, 1202 (Fed. Cir. 2003): Stating that *Red Wing* "explains that, even though the letters are 'purposefully directed' at the forum and the declaratory judgment action 'arises out of' the letters, letters threatening suit for patent infringement sent to the alleged infringer by themselves 'do not suffice to create personal jurisdiction' because to exercise jurisdiction in such a situation would not 'comport with fair play and substantial justice.'"
- *Campbell Pet Co. v. Miale*, 542 F.3d 879, 885 (Fed. Cir. 2008): Citing *Red Wing* for the proposition that "we have fashioned a rule, as part of the 'reasonable and fair' portion of the due process inquiry in personal jurisdiction cases, that, without more, a patentee's act of sending letters to another state claiming infringement and threatening litigation is not sufficient to confer personal jurisdiction in that state."

Clarification of the Rules for Assessing Specific Personal Jurisdiction vis-à-vis Notice Letters.

Before turning to the merits of the case, the Federal Circuit walked back language in *Red Wing* which has been understood as declaring that notice letters by themselves cannot justify the exercise of specific personal jurisdiction.

- There are no "special" patent policies or rules for personal jurisdiction.
  - The Supreme Court has explained that "[p]atent law is governed by the same . . . procedural rules as other areas of civil litigation,"[24] that there is no special rule for granting injunctions in patent cases,[25] and that Congress has not enacted any statute that "placed patent infringement cases in a class by themselves."[26]
  - Thus, the scope of *Red Wing* (and the existence of specific personal jurisdiction) cannot "rest on special considerations unique to patent cases."
- Supreme Court and Federal Circuit precedent teach that "communications threatening suit or proposing settlement or patent licenses can be sufficient to establish personal jurisdiction."
  - *E.g.*, "[a]n entity that repeatedly sends communications into a forum state 'clearly has 'fair warning that [its] activity may subject [it] to the jurisdiction of a foreign sovereign.'"[27]
  - *E.g.,* a defendant's "negotiation efforts, although accomplished through telephone and mail" from outside the forum, "can still be considered as activities 'purposefully directed' at residents of [the forum]."[28]
- The Supreme Court's recent *Ford* case[29] establishes that "a broad set of a defendant's contacts with a forum are relevant to the minimum contacts analysis."
  - In the same way that, in *Ford*, "sales of similar vehicles and the presence of dealerships in a forum can support personal jurisdiction in the tort context, so too can nonexclusive patent licenses in this case."

Minimum Contacts Exist Between PerDiemCo and California.

The Federal Circuit held that PerDiemCo's twenty-two communications with Trimble in California[30] over a three-month period satisfied the minimum contacts requirement. Unlike the circumstances in *Red Wing*, where the Federal Circuit wanted to provide "sufficient latitude" for a patentee "to inform others of [their] patent rights without subjecting [themselves] to jurisdiction in a foreign forum," here PerDiemCo:

- Accumulated "an extensive number of contacts with the forum in a short period of time";
- Used an unfiled patent-infringement complaint as a springboard "to launch negotiations for a nonexclusive license";
- "[I]dentified around ten nonexclusive licensees of the same set of PerDiemCo's patents that PerDiemCo accused Trimble's and ISE's products and services of infringing";
- "[A]mplified its threats of infringement as the communications continued, asserting more patents and accusing more of Trimble and ISE's products of infringement";
- "[W]ent so far as to identify the counsel it retained to sue Trimble and ISE and the venue in which it planned to file suit" (*i.e.,* ED-Tx); and

[24] *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC,* 137 S. Ct. 954, 964 (2017).

[25] *eBay Inc. v. MercExchange, L.L.C.,* 547 U.S. 388, 393–94 (2006) (no presumption in favor of permanent injunction upon finding patent is valid and infringed – instead, the grant of injunctive relief "must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.").

[26] *TC Heart-land LLC v. Kraft Foods Grp.,* 137 S. Ct. 1514, 1518 (2017) (quoting *Brunette Mach. Works, Ltd. v. Kockum Indus., Inc.,* 406 U.S. 706, 713 (1972)).

[27] *Quill Corp. v. North Dakota,* 504 U.S. 298, 308 (1992); *see also South Dakota v. Wayfair, Inc.,* 138 S. Ct. 2080 (2018) ("[i]t is settled law that a business need not have a physical presence in a State to satisfy the demands of due process.").

[28] *Inamed Corp. v. Kuzmak,* 249 F.3d 1356, 1362 (Fed. Cir. 2001); *see also Jack Henry,* 910 F.3d 1199 (Fed. Cir. 2018) and other cases cited above in the Relevant Black Letter Law section and *Genetic Veterinary Sciences, Inc. v. LABOKLIN, GmbH & Co. KG*, 933 F.3d 1302, 1312 (Fed. Cir. 2019) (bright line rule that notice letters by themselves can never provide basis for specific personal jurisdiction "would contradict the Court's directive to 'consider a variety of interests' in assessing whether jurisdiction would be fair.").

[29] *Ford Motor Co. v. Mont. Eighth Jud. Dist. Ct.,* 141 S. Ct. 1017 (2021).

[30] The panel *deemed* the communications with Trimble's subsidiary in Iowa and with Trimble's Chief IP Counsel in Colorado to be communications with Trimble at its headquarters in California.

- PerDiemCo's efforts to extract a license were "much more akin to 'an arms-length negotiation in anticipation of a long-term continuing business relationship,' over which a district court may exercise jurisdiction."[31]

Exercising Specific Personal Jurisdiction over PerDiemCo in California is Reasonable and Fair.

Holding that the exercise of specific personal jurisdiction over PerDiemCo comported with fair play and substantial justice, the Federal Circuit made the following findings regarding the relevant factors:

- *Burden on the defendant:* Litigating in the ND-California does not impose any undue burden on PerDiemCo for several reasons –
  - Even though DJ Defendant PerDiemCo claims to have offices in the ED-Texas, the company's sole employee lives and works in Washington D.C. and has never visited the Texas office (suggesting that PerDiemCo's presence in Texas was "pretextual" and amounted to "little more than a façade");
  - PerDiemCo has repeatedly filed lawsuits in the ED-Texas and threatened to sue Trimble's subsidiary in the Northern District of Iowa, both of which are far from Mr. Babayi's Washington office – such that "PerDiemCo's burden of litigating in California is, at most, only slightly greater than litigating in its preferred fora of Texas or Iowa"; and
  - "the nature of PerDiemCo's primary business of asserting its patents requires it to litigate far from Mr. Babayi's Washington office, thus mitigating any burden on it as the defendant."
- *Forum State's interest in adjudicating the dispute:* "California has 'definite and well-defined interests in commerce and scientific development,' and 'California has a substantial interest in protecting its residents from unwarranted claims of patent infringement.'" Further, as a California resident, DJ Plaintiff Trimble is not engaged in "forum-shopping."
- *Plaintiff's interest in obtaining convenient and effective relief:* As a California resident, Trimble "indisputably has an interest in protecting itself from patent infringement by obtaining relief 'from a nearby federal court' in its home forum." Further, "California is where its most relevant employees and documents are located."
- *Interstate judicial system's interest in obtaining the most efficient resolution of controversies:* Efficient resolution does not appear to be an issue that was seriously contested, and for this factor the Federal Circuit merely asserted that "[j]urisdiction over Trimble and ISE's claims in California would result in an efficient resolution of the controversy" and noted that nothing prevented settlement (as an efficient method of resolution) from proceeding if the case were pending in ND-California.
- *Shared interest of the several States in furthering fundamental substantive social policies:* This factor also did not appear to have been seriously contested, and the Federal Circuit concluded merely that "there does not appear to be any conflict between the interests of California and any other state, because 'the same body of federal patent law would govern the patent [non]infringement claim irrespective of the forum.'"

[31] Quoting *Red Wing,* 148 F.3d at 1361 (citing *Burger King,* 471 U.S. at 479).